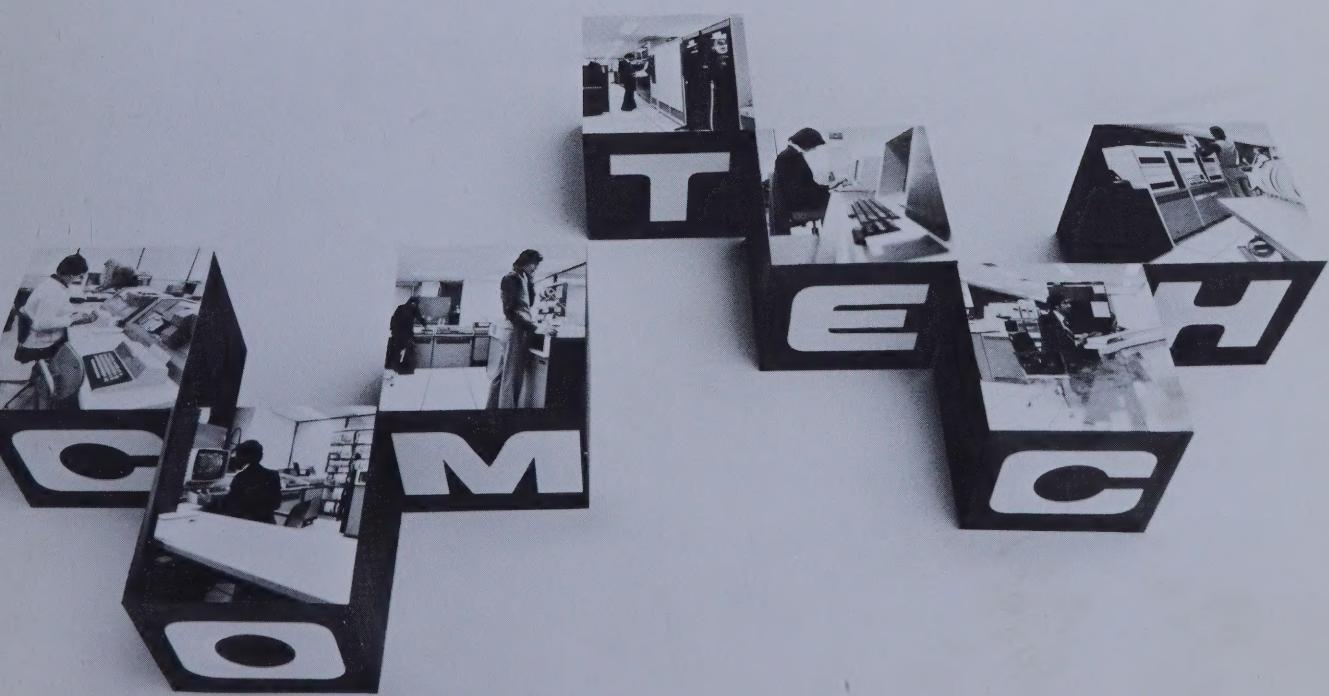


AR48

*Natoli Lynch*

# COMTECH

## 1979 Annual Report



**COMTECH**  
GROUP INTERNATIONAL LIMITED



**Directors**

James E. Houston  
*Chairman*

Donald M. McPhail  
*President, Chief Executive Officer*

J. Heath Halliday  
*Vice President*

Noreen M. Stevens  
*Secretary*

*John Cuthbert*

*Edward K. Loyst*

*Diane McPhail*

*John D. Morand*

*Renato Zambonini*

**Annual General Meeting**

The 1979 Annual and General Meeting of Shareholders of Comtech Group International Limited will be held at Suite 250, 5 Fairview Mall Drive in Willowdale, Ontario at 3:00 p.m. on November 26, 1979.

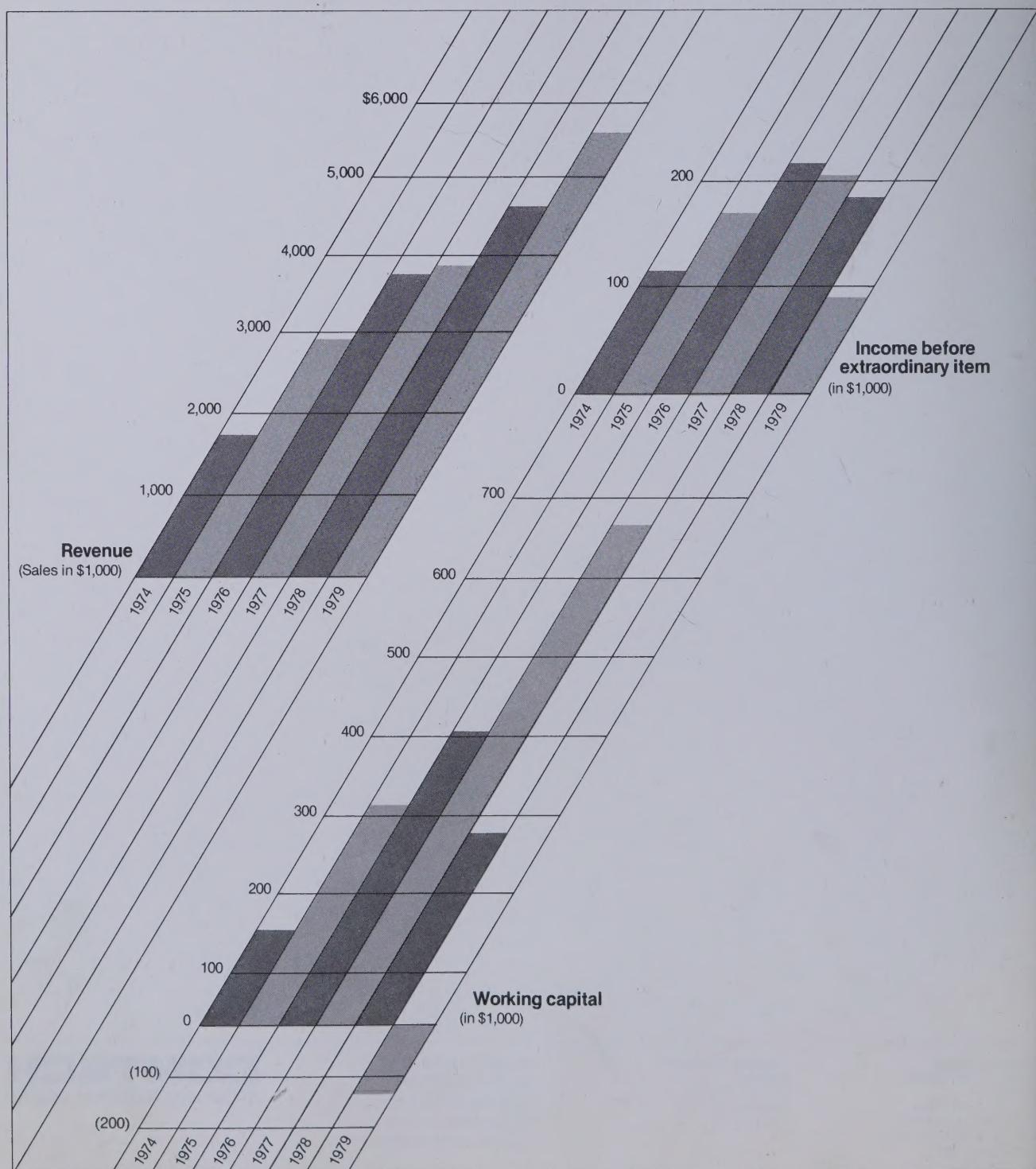
**Comtech Group**  
International Limited  
Suite 250  
5 Fairview Mall Drive  
Willowdale, Ont. M2J 2Z1  
Area Code 416-492-1480  
Telex 06 966748

**Comtech Research**  
**Centre,**  
Co. Cork Ireland,  
Cork (021) 821432  
Telex 32072

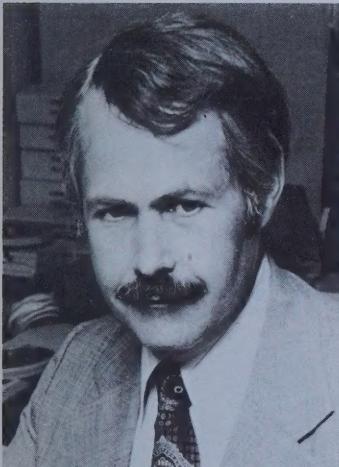
Montreal (514) 382-3330  
Toronto (416) 492-1480  
Cambridge (519) 653-7331  
Winnipeg (204) 775-2449  
Vancouver (604) 689-3455

**COMTECH**  
GROUP INTERNATIONAL LIMITED

	1979	1978	1977	1976	1975	1974
<b>Revenue</b>	5,701,794	4,364,916	3,735,449	3,726,085	2,913,715	1,798,614
<b>Income before extraordinary item</b>	92,274	190,255	201,583	216,319	171,676	117,297
<b>Working capital</b>	(122,685)	279,311	668,515	415,557	326,509	155,033



# President's Report



Dear Shareholder:

During the past fiscal year, Company management continued to focus attention on growth opportunities. Revenues increased by 31 percent to over \$5.7 million. Additional investments were made to extend the Comtech product line to ensure that our growth continues well into the future.

The Company's commitment to develop new products for a rapidly expanding market has required a further investment of \$769,433 during fiscal 1979. The major portion of this investment was in new forms of interactive services, the principal product under development being a fully integrated, on-line order entry system. Major sections of this product have been released to the market and have achieved good acceptance. Accounts in Quebec, Ontario and Manitoba are using these sections now. To further

strengthen this product offering's market position additional modules will be released shortly. The invoicing module of the system is scheduled to be operational during the first quarter of fiscal 1980 and the final modules for order handling and inventory control are expected to be available during the third quarter.

Our investment in new software is expected to decrease to a level closer to the industry average in 1980.

During fiscal 1979 we increased the depreciation on our Honeywell equipment to write off all residuals. The result was an increase in depreciation on fixed assets to \$277,242. All major products formerly produced on Honeywell equipment are now operational on our IBM 370 or DEC computers. This has enabled us to discontinue the use of three of our five old computers. A fourth old machine is scheduled to be shut down during the first quarter of 1980.

With the conversion to IBM computers nearly complete, we are now achieving higher productivity resulting from the installation of the new advanced equipment.

During the fourth quarter, Telaccount was successfully integrated. While we experienced high costs prior to this, as a result of duplication of staff and facilities, we expect an added contribution to our profitability in the coming year. The Telaccounting™ product has proven to be an excellent integrated accounting service and has continued to have good market acceptance.

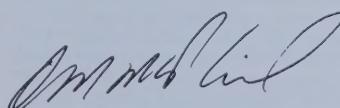
Our net profit for fiscal 1979 was \$92,274. With our new interactive products gaining acceptance plus the continued strong showing of our traditional services, we expect a sharp improvement in net profit for fiscal 1980.

All personnel of the Company are to be highly commended for their excellent efforts implementing the equipment conversion and in the development activity of recent years. The new software products now being introduced are of exceptional quality and place the Company in a strong market position to achieve a significant return on our investment during the coming year.

Finally, with the shift in control of the Company to an internal management group several directors have tendered their resignation in favor of management personnel. I would like to take this opportunity to extend our thanks on behalf of all shareholders to Robert Curl, William Hutchison and Michel Bourbonnais. Their assistance has been invaluable in directing the Company through a period of dramatic change. I would also like to express appreciation to our former Chairman, Mr. Sinclair Stevens, and wish him every success in Government.

I look forward to reporting to you the results in our coming year.

Yours very truly,

A handwritten signature in cursive ink, appearing to read "Robert Curl".

# The Road to Growth



The extensive investment COMTECH has made in recent years developing new software systems as well as in advanced computers to deliver these systems to our customers has placed the company in a forward position on the road to growth as the data processing industry enters a period of dramatic expansion.

The market for computers and related services is forecast to exceed the size of the Canadian automotive industry by 1985. And the most dynamic area of growth will be in the "interactive" information processing sector, in which organizations have a computer terminal in their own office communicating directly with high-speed computers.

While COMTECH still maintains its well-earned leadership position in the area of pick-up and delivery or "batch" information processing services, the recent investment has been in "interactive" software and hardware technologies, where the most significant growth will occur over the next five years. The result is that today COMTECH is offering customers the "interactive" services they will increasingly demand in the years ahead to more economically and efficiently manage their organizations.

Traditionally, the benefits of "interactive" data processing systems have only been available to organizations with in-house computers. This route has had a number of significant financial and administrative drawbacks, particularly for small and medium size organizations, who more than ever before, require computerized information systems.

COMTECH's strategy on its road to growth is to offer organizations of any size *an intelligent alternative to an in-house computer*; to provide them with all the benefits of owning a computer without the costs associated with an in-house information processing department.

The benefits of our "interactive" information processing services are many:

- The customer can immediately access information via the terminal in his own office.
- This immediate accessibility means that information is always accurate and up-to-date.
- The office terminal provides the customer with complete in-house control over his information processing schedule.
- Customers don't have to make long-term commitments; our agreements are open and flexible, reflecting the company's confidence in its products.
- Minimum capital investment is required from the customer.
- Equipment and software systems are provided that are more powerful than those normally utilized with in-house computer installations.
- Charges are based on how much the customer uses the system, so costs reflect volume.
- Additional information processing capacity is always available.
- The system is designed so that new applications can be added at any time to increase information processing capabilities.
- The system can be implemented quickly and easily so the customer gets immediate benefits.

COMTECH has every resource to satisfy our customer's information processing requirements, including:

- A network of sophisticated, high-speed computers.
- A wide variety of packaged software systems.
- Experienced people with equipment and applications expertise to ensure the success of every installation.



We provide customers with the tools to achieve total information processing *solutions* to management problems, not simply some of the elements from which the customer is expected to manufacture his own solutions. This goes a long way to help facilitate decision-making.

Reflecting its commitment to "interactive" information processing, COMTECH introduced four *major* new application products during 1979:

- CREDITMASTER\*, an accounts receivable/sales analysis system.
- FINAR, a financial planning/financial modelling system.
- SAGE\*, a DataBase Management system.
- An "on-line front-end" system for our TELACCOUNTING\* financial management and control system.



Additionally, marketing efforts were initiated in the United Kingdom where we are offering our new "interactive" products.

With these additions to our product line, COMTECH is now capable of servicing its customers in any one or all of the following areas: payroll, accounts receivable, sales analysis, general ledger, financial reporting, financial planning, sales management and control, as well as customized computer systems to meet specific and unusual needs.

The key to our future success lies in our software systems. A review of one of the newly introduced products - the CREDITMASTER\* Accounts Receivable/Sales Analysis system - will serve to illustrate why we feel we are on the road to growth with our new "interactive" systems.

CREDITMASTER\* represents a unique combination of cash management, credit control and flexibility in management reporting. It is an "interactive" system, providing users with immediate access to their own information in computer memory - either to enquire about customers or to prepare reports. And since CREDITMASTER\* has a database design, the information on file is always completely up-to-date and accurate.

CREDITMASTER\* is composed of two modules - Accounts



**Receivable and Sales Analysis** - which can be used separately or integrated. A third module - Invoicing - will be released during the Fall of 1979. Additional functions will be added during 1980 to provide complete Order Entry, Inventory Control capabilities. CREDITMASTER\* also integrates with COMTECH's other accounting systems, to provide a comprehensive financial control system.

The Accounts Receivable module places full emphasis on cash management and credit control. It has the necessary features to speed up cashflow, allowing our customers to be more self-funding. It also provides the tools to identify problem accounts long before they become bad debts.

The key to this approach is CREDITMASTER's\* design which guarantees the instant availability of complete and accurate account data, both through enquiries and on reports. Reporting options include detailed ageing, overdue reports, credit limits, etc.

Equally important, CREDITMASTER\* makes certain that the user's customers have full information on where they stand... customer statements show clearly and in full detail, all account activity. In addition to the ageing breakdown, "dunning" messages can be printed on statements, based on user-specified criteria (for example,



ageing over 30 days, more than \$25,000.00 outstanding, or whatever). Statements are immediately available at month-end.

Because of its database design the CREDITMASTER\* Sales Analysis module is one of the most flexible available. Not only does the user define what information he wishes to retain, he also defines what reporting structures to use.

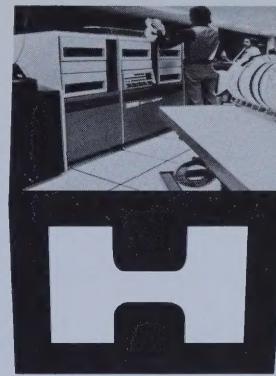
Information is held on a historical basis for three groups: customers, products and (optionally) salesmen. Each of these groups can have up to six user-defined codes associated with it, representing the user's own analysis categories.

Four basic report types are available: (1) Sales analysis - sales dollars; (2) Gross profit analysis - sales versus costs; (3) Sales performance analysis - sales versus targets, for salesmen and/or products; and (4) Trend analysis - sales on a month-by-month for the previous six months. Numerous reporting options are available within these basic reports ... quantities, comparative figures for specified months and years-to-date, variances, target figures, etc.



Using these report types, and the information on file, our customers can match reports to the information to produce the reporting system best suited to their needs. For example, they can decide whether to receive a gross profit analysis by product or by customer - or by both. The sequence of reports is also customer-defined, using the six analysis categories in each group. Also, reports may be sequenced by name and/or number. Monthly transaction analysis and commission reporting is also available.

Reports can be selected based on user-specified criteria. An example could be an exception sales performance report for salesmen producing less than 90 percent of target; a gross profit analysis only for branch



123; a trend analysis only for products with a gross profit of less than 50 percent. All reporting is available routinely or on request only.

CREDITMASTER\* is an example of how COMTECH's "interactive" systems offer a cost-effective alternative for an organization considering its first or a replacement in-house computer.

COMTECH's investment in "interactive" services has not in any way taken away from the company's established lines of business.

COMTECH's payroll services, through the PAYMASTER\* and AUTOPAY\* systems, continue to be one of the largest producers of revenue for the company. The CASHMASTER\* and FINANCIALMAN\* accounts payable and general ledger systems maintain strong positions in the marketplace as a result of their built-in flexibility allowing them to address the needs of a wide variety of organizations. TEL—ACCOUNTING\*, acquired in 1978, provides integrated financial management and control systems for a large number of customers.

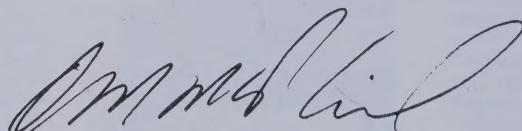
COMTECH's combination of state-of-the-art hardware and software systems, coupled with its experienced staff, have positioned the company to take full advantage of today's business opportunities and give us a headstart as the needs of the market shift from batch to "interactive" services ... the road to growth.

\* Indicates a registered trademark of COMTECH.

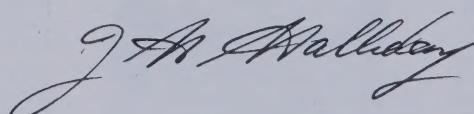
**Assets**

	1979	1978
<b>Current:</b>		
Cash .....	\$ 61,294	\$ 68,708
Accounts receivable .....	847,338	1,119,042
Loan receivable, non-interest bearing, due on demand .....	51,428	—
Income taxes recoverable .....	48,257	72,025
Inventories, at cost .....	113,617	70,098
Prepayments and sundry assets .....	167,430	114,091
	<b>1,289,364</b>	<b>1,443,964</b>
<b>Investments (Note 1):</b> .....	333,364	303,364
<b>Package programmes (Note 2):</b> .....	1,333,792	824,133
<b>Fixed (Note 3):</b> .....	454,682	653,640
<b>Other assets and deferred charges</b> .....	750	750
<b>Goodwill and excess of cost of investments in subsidiaries over net assets acquired</b> .....	800,830	806,613
	<b>801,580</b>	<b>807,363</b>

On behalf of the Board:



(Director)



(Director)

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\$ 4,212,782      \$ 4,032,464

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See accompanying notes and Summary of Significant Accounting Policies.

**Consolidated Balance Sheet—June 30, 1979**

**Liabilities**

	<b>1979</b>	<b>1978</b>
<b>Current:</b>		
Bank indebtedness (Note 4) .....	\$ 569,000	\$ 200,000
Accounts payable and accrued liabilities .....	724,242	857,440
Deferred income taxes .....	18,807	213
Current maturities on long-term debt (Note 5) .....	100,000	107,000
	1,412,049	1,164,653
<b>Long-term debt (Note 5):</b> .....	300,000	400,000
<b>Deferred income taxes</b> .....	133,848	153,488
	1,845,897	1,718,141

**Shareholders' Equity**

**Capital stock:**

Authorized:

14,490 5% First preference shares, \$10 par value, cumulative,  
redeemable at \$10.20 a share

157,482 3% Second preference shares, \$1 par value, non-  
cumulative, redeemable at par

2,000,000 Common shares, \$1 par value

Issued:

4,490 5% First Preference shares, less 200 shares purchased  
by the company during 1978 .....

43,870

43,870

55,482 3% Second Preference shares, less 1,500 shares pur-  
chased by the company during the year .....

55,107

55,482

885,713 Common shares .....

885,713

885,713

**984,690**

**985,065**

**Contributed surplus** .....

101,000

101,000

**Retained earnings** .....

1,281,195

1,228,258

2,366,885

2,314,323

**\$ 4,212,782**

**\$ 4,032,464**

**Consolidated Statement of Income and Retained Earnings**

Year ended June 30, 1979

	1979	1978
<b>Revenues</b> .....	<b>\$ 5,701,794</b>	<b>\$ 4,364,916</b>
Costs and expenses .....	5,610,566	4,282,894
 Income before taxes .....	 91,228	 82,022
Provision for income taxes:		
Current (recovery) .....	—	(98,951)
Deferred .....	(1,046)	(9,282)
	<b>(1,046)</b>	<b>(108,233)</b>
 <b>Net income</b> .....	 <b>92,274</b>	 <b>190,255</b>
<b>Retained earnings at beginning of year</b> .....	<b>1,228,258</b>	<b>1,095,055</b>
 Less, dividends paid .....	 1,320,532	 1,285,310
	39,337	57,052
 <b>Retained earnings at end of year</b> .....	 <b>\$ 1,281,195</b>	 <b>\$ 1,228,258</b>
 <b>Earnings per share</b> .....	 \$ .10	 \$ .21
Average number of shares outstanding .....	885,713	885,713

See accompanying notes and Summary of Significant Accounting Policies.

**Consolidated Statement of Changes in Financial Position**

Year ended June 30, 1979

	<b>1979</b>	<b>1978</b>
<b>Financial resources were provided by:</b>		
Net income .....	\$ 92,274	\$ 190,255
Add (deduct) items not requiring a current outlay (receipt) of working capital:		
Depreciation of fixed assets .....	277,242	135,693
Amortization of package programmes .....	259,774	191,467
Provision for non-current deferred taxes .....	(19,640)	15,806
Amortization of excess of cost of investments .....	5,783	5,783
Working capital provided from operations .....	<b>615,433</b>	<b>539,004</b>
Increase in long-term debt .....	—	300,000
	<b>615,433</b>	<b>839,004</b>
<b>Financial resources were used for:</b>		
Purchase of Comtech First and Second Preference Shares .....	375	1,030
Purchase of fixed assets .....	78,284	467,163
Purchase of investments .....	30,000	174,077
Package programme development costs .....	769,433	421,886
Retirement of long-term debt .....	100,000	107,000
Payment of dividends .....	39,337	57,052
	<b>1,017,429</b>	<b>1,228,208</b>
Increase (decrease) in working capital .....	<b>(401,996)</b>	<b>(389,204)</b>
Working capital at beginning of year .....	279,311	668,515
Working capital (deficiency) at end of year .....	<b>\$ (122,685)</b>	<b>\$ 279,311</b>

See accompanying notes and Summary of Significant Accounting Policies

**AUDITORS' REPORT**

To the Shareholders of  
Comtech Group International Limited

We have examined the consolidated balance sheet of the Comtech Group International Limited and its subsidiaries as at June 30, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1979 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LIPTON, WISEMAN, GREENSPOON & ALTBAUM,  
October 11, 1979  
Chartered Accountants

**Notes to Consolidated Financial Statements**

Year ended June 30, 1979

**1. Investments:**

	Cost
Selkirk Securities Limited .....	\$300,000
Other .....	33,364
	<b>\$333,364</b>

Selkirk Securities Limited is an investment holding company which, as at June 30, 1979, owns 42.2% of the issued common shares of Comtech Group International Limited, and 31.8% of the outstanding common shares of Dataline Systems Limited.

Comtech accounts for these investments by the cost method. The majority interest in Selkirk is owned by York Centre Corporation.

Subsequent to June 30, 1979, individuals comprising the senior management group of Comtech acquired a controlling interest in Selkirk. As well, the common shares of Selkirk owned by Comtech were converted into redeemable preference shares, bearing a 4% cumulative dividend.

**2. Package Programmes:**

The following is a summary of package programmes:

	1979	1978
Balance at beginning of year .....	\$ 824,133	\$ 593,714
Package programme development costs capitalized during the year .....	769,433	421,886
	<b>1,593,566</b>	<b>1,015,600</b>
Amortization of package programmes .....	259,774	191,467
Balance at end of year .....	\$ 1,333,792	\$ 824,133

**3. Fixed assets:**

Fixed assets are summarized as follows:

	1979	1978		
	Cost	Accumulated Depreciation	Net	Net
Computer Equipment .....	\$ 690,428	\$ 603,061	\$ 87,367	\$262,357
Magnetic Tapes .....	46,632	46,632	—	3,428
Furniture and Office Equipment .....	261,199	140,078	121,121	128,344
Leasehold Improvements .....	292,131	147,259	144,872	129,882
Building .....	98,155	3,535	94,620	114,303
Vehicles .....	31,478	24,776	6,702	15,326
	<b>\$1,420,023</b>	<b>\$965,341</b>	<b>\$454,682</b>	<b>\$653,640</b>

**4. Bank Indebtedness:**

Bank indebtedness is secured by a general assignment of book debts.

**5. Long-term debt:**

Bank loan, evidenced by a registered debenture, bearing interest at 2% above the prime commercial lending rate repayable \$25,000 quarterly .....	\$400,000
Current maturities .....	100,000
	<b>\$300,000</b>

The bank loan is secured by a first fixed charge on the company's computer equipment and a first floating charge over all other assets.

The annual payments required to meet aggregate principal retirements of the long-term indebtedness as at June 30, 1979 are as follows:

1980	\$100,000
1981	100,000
1982	100,000
1983	100,000
<hr/>	

**\$400,000**

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#### **6. Contingent Liabilities:**

- (a) In January, 1978, the company was ordered to pay \$60,000 plus interest and costs pursuant to a judgement handed down by the Quebec Superior Court. The judgement resulted from an action initiated by Aquila BST (1974) Limited, relating to the purchase by Comtech of the operating assets of the Toronto data centre of Aquila, in March, 1975. Comtech has appealed the decision, and in the opinion of counsel, has a reasonable chance of being successful.

These financial statements do not reflect any liability with respect to the January, 1978 judgement. If the liability had been recorded, working capital would have been reduced by the amount of the judgement, current year's earnings would have been reduced by \$1,500, being the annual amortization of the \$60,000, plus interest applicable to the current year plus costs; and retained earnings would have been further reduced by a prior period adjustment reflecting accumulated amortization of \$4,875 and interest relating to previous fiscal years.

- (b) Two former officers are suing the company for amounts aggregating \$140,000 as damages for wrongful dismissal. Management is of the opinion that these claims are unreasonable, and accordingly, no provision has been made for them in these financial statements.
- (c) The company has been sued by Bene-Pack Insurance Agencies Limited for damages of \$1,000,000 for failure to perform under a service agreement. The company has issued a counterclaim against Bene-Pack for negligence. In the opinion of management, the claim is without foundation and has no chance of success.

#### **7. Commitments:**

The companies are committed to annual realty and equipment rentals of approximately the following amounts:

1980	\$445,000
1981	373,000
1982	243,000
1983	109,000
1984	76,000
1985-1986	26,000

#### **8. Statutory information:**

The aggregate direct remuneration paid or payable by the companies to the Directors and Senior Officers of the company was \$216,690 — twelve individuals (\$226,981 in 1978 — eight individuals).

Total interest expense for the year on debt initially incurred for a period in excess of one year was \$59,900 (\$31,500 in 1978).

## Summary of Significant Accounting Policies

### (i) Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned except for Commercial Computer Services Inc. which is 99.5% owned.

### (ii) Fixed assets:

The company depreciates its fixed assets on a straight-line basis over their estimated useful lives. Total depreciation during 1979 was \$277,242 (\$135,693 in 1978).

### (iii) Package programmes:

It is the company's policy to capitalize the costs of package programme development and to amortize such costs on a straight-line basis over a five-year period, commencing in the six-month period following incurrence of such costs.

### (iv) Goodwill and excess of cost of investments in subsidiaries over net assets acquired:

The excess of cost of investment in subsidiaries over equity in net assets acquired relating to those companies purchased on or before April 1, 1974 is not being amortized since, in the opinion of management, it has continuing value. As required by an accounting recommendation of the Canadian Institute of Chartered Accountants, goodwill and the excess cost of investments in subsidiaries over equity in net assets acquired relating to companies purchased after April 1, 1974 are being amortized; the company is using a straight-line basis for amortization over 40 years. The amount so amortized in 1979 is \$5,783 (\$5,783 in 1978).

### (v) Income taxes:

The company follows the tax allocation method of accounting. Under this method timing differences between the amount of income reported for tax purposes and the amount of accounting income result in provisions for deferred income taxes.



(008)

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